

**Expansion of the Workforce Planning Process
Would Increase Opportunities to Identify and
Address Staffing Risks**

August 2002

Reference Number: 2002-10-154

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 20, 2002

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Expansion of the Workforce Planning
Process Would Increase Opportunities to Identify and Address
Staffing Risks (Audit # 200210004)

This report presents the results of our review of the Internal Revenue Service's (IRS) workforce planning process. The overall objective of this review was to determine whether the IRS Strategic Human Resources function has implemented a process to timely develop and implement an effective workforce planning model to meet the expectations of the four operating divisions.

In summary, we found the IRS has initiated actions to incorporate a workforce planning process into its strategic planning processes. For example, the overall strategic direction for workforce planning has been set and the process of establishing organizational goals has generally been completed. In addition, processes for evaluating workforce demographic data such as positions, length of government service, and age of the current employee workforce have been developed to assist IRS management in its decision-making processes.

Although the IRS has initiated and completed many tasks necessary to accomplish workforce planning, it should continue with its effort to complete a comprehensive workforce planning process. The IRS' status is not unusual, as our interviews with the Office of Personnel Management and analysis of recent Office of Management and Budget and General Accounting Office reports show that none of the executive branch Departments reviewed have fully implemented an overall workforce planning process. Our audit identified opportunities to increase the value of the IRS workforce planning activities and improve management's ability to monitor progress.

IRS management has not established a project plan that assigns responsibilities and includes milestones for each of the steps in an overall workforce planning process. The lack of a formal plan and consistency in approaches can be attributed to the fact that the IRS has only recently initiated a comprehensive workforce planning process. Preparing a formal project plan and refining selected elements of the process will enable the IRS to monitor progress and ensure consistency of activities and information reporting.

Workforce planning guidance documents do not currently focus on long-term planning, i.e., beyond 3 years. In addition, the workforce planning process being developed may not effectively address long-term (3 to 5 years) workforce planning goals. The current focus on a 3-year planning process is the result of IRS plans to integrate its workforce planning process with the ongoing strategic planning and budgeting processes. Although the process requires management to develop and report actual workload and resource estimates for the short-term (i.e., the current fiscal year and the 2 future years being planned), quantitative measures for long-term planning are not always required. Expanding the workforce planning process and guidance to encompass 5 years will increase the IRS' ability to identify risks and provide necessary data to key stakeholders.

Management's Response: IRS management agreed with the recommendations cited in the report and is taking appropriate corrective actions. The Chief Human Resource Officer will assign responsibility for expanding the workforce planning process to the Director Workforce Planning. Among other things, the Director Workforce Planning will develop a 5-year workforce plan and production schedule through the Workforce Planning Council. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**Expansion of the Workforce Planning Process Would Increase
Opportunities to Identify and Address Staffing Risks**

Table of Contents

Background	Page 1
Building on Current Accomplishments and Monitoring Progress Could Increase the Value of Workforce Planning Activities	Page 3
<u>Recommendation 1:</u>	Page 5
Expanding the Workforce Planning Process to Encompass 5 Years Will Increase the Ability to Identify Risks and Provide Necessary Data to Key Stakeholders	Page 6
<u>Recommendation 2:</u>	Page 8
Appendix I – Detailed Objective, Scope, and Methodology	Page 9
Appendix II – Major Contributors to This Report.....	Page 10
Appendix III – Report Distribution List	Page 11
Appendix IV – Management’s Response to the Draft Report	Page 12

Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks

Background

Having now entered the 21st century, the federal government faces a workforce shortage. Within the next 5 years, nearly 30 percent of the federal workforce will be eligible to retire and 20 percent more can apply for early retirement. In 2001, the General Accounting Office (GAO) estimated that 27 percent of the Department of the Treasury workforce on board in 1998 would be eligible to retire at the end of Fiscal Year (FY) 2006. The GAO further estimated that 16 percent of the Treasury workforce would actually retire by that time. As a result, agencies must start planning for the workforce of the future. Specifically, organizations need to develop effective workforce plans to ensure they are able to recruit, develop, and retain qualified workforces to achieve their organizational goals and objectives.

In order to meet this challenge, a uniform process that provides a disciplined approach for matching human resources with the anticipated needs of the Internal Revenue Service (IRS) is essential. Workforce planning is a fundamental planning tool, critical to quality performance that will contribute to the achievement of program objectives by providing a basis for justifying budget allocation and workload staffing levels. Workforce planning ensures that the right people with the right skills are in the right place at the right time.

The Government Performance and Results Act of 1993 (GPRA)¹ calls for agencies to address human capital in the context of performance-based management and requires that annual performance plans describe how agencies will use their resources to support the accomplishment of their goals and objectives. Three key federal agencies, the Office of Management and Budget (OMB), the Office of Personnel Management (OPM), and the GAO, are leading the drive toward workforce planning and restructuring.

In May 2001 the OMB issued Bulletin No. 01-07, requiring agencies to prepare a workforce analysis including information on the demographics of their workforce

¹ Government Performance and Results Act of 1993 (GPRA), Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks

including retirement eligibility, expected retirements over the next 5 years, and attrition and to evaluate the skills of their workforce. Based on their workforce analyses, agencies were required to develop a 5-year plan as part of their FY 2003 budget to identify the specific organizational changes being proposed.

The OPM has prepared a five-step workforce planning model to help federal agencies strategically assess their human resource needs and ensure they have the information and tools needed to complete successful workforce plans. This model provides a general framework of tasks to be completed in the workforce planning process. The model was designed to help agencies identify and complete the following steps:

- Set strategic direction.
- Analyze workforce supply, demand and discrepancies.
- Develop an action plan.
- Implement the action plan.
- Evaluate and revise the process.

In January 2001, the GAO added strategic human capital management to its list of high-risk programs. The GAO's Performance and Accountability Series reports make clear that human capital shortfalls are eroding the ability of many agencies and threatening the ability of others to effectively, efficiently, and economically perform their missions.

This audit was conducted between December 2001 and May 2002 at the Office of Strategic Human Resources in Washington, D.C., and each of the four business units headquarters offices located in Washington, D.C. and Atlanta, GA. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks

Building on Current Accomplishments and Monitoring Progress Could Increase the Value of Workforce Planning Activities

The IRS has acknowledged the need for a workforce planning process and has begun taking actions to incorporate this process in the ongoing strategic planning processes. For example, the IRS has generally completed the initial step of setting the overall strategic direction and establishing organizational goals. Also, the IRS has developed a process to evaluate workforce demographic data such as the positions, length of government service, and age of the current employees, allowing management to make informed decisions based on this information.

The IRS established a Workforce Planning Division as part of the Strategic Human Resources function in the National Headquarters organization. This division is responsible for providing a planning process and analytical capability to measure and compare the current workforce (supply) to the future workforce (demand) and advising how to minimize the gap.

In September 2001, the IRS established the Workforce Planning Council consisting of senior management representatives from each operating division. The Director of the Workforce Planning Division advised us that this Council is the primary vehicle for communicating workforce planning information among the operating divisions.

The Workforce Planning Division recently drafted an *Internal Revenue Manual Handbook* outlining the organizational responsibilities and is preparing an overall guidance document to share with the IRS operating divisions. This document further describes the IRS workforce planning process and provides information on the purpose and scope of each step in the process.

The IRS has completed many of the actions necessary for developing a workforce planning model and has many other actions in process. However, these actions were focused on placing existing staff into the new organizational footprints designed in response to reorganization requirements included in the IRS Restructuring and Reform Act of 1998

Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks

(RRA 98),² as opposed to being included in a comprehensive workforce planning process.

Specifically, the IRS could further enhance the workforce planning process by establishing a project plan that assigns responsibilities and includes milestones for each of the five steps in an overall workforce planning process. The Workforce Planning Division Director established a general timeline for accomplishing the tasks to be completed. However, this plan does not provide complete information on responsibility and milestones for completion and had not been presented for review and approval by the Chief Human Resource Officer or the Workforce Planning Council.

The lack of a formal plan and consistency in approaches can be attributed to the fact that the IRS has only recently initiated a comprehensive workforce planning process. This status is not unusual, as our interviews with the OPM and analysis of recent OMB and GAO reports show that none of the Departments reviewed have fully implemented an overall workforce planning process.

By preparing a formal project plan and refining selected elements of the workforce planning process, IRS management will be able to monitor progress and ensure consistency of activities and information reporting. Implementing a formal process will enable the IRS to:

- Identify customers and goals.
- Plan specific tasks and assign responsibilities for completing the tasks.
- Describe deliverables and establish timelines for accomplishing tasks and goals.
- Develop objective measures to evaluate goals and milestones.
- Monitor progress and evaluate results.

The OMB Circular A-123 and the GAO *Standards for Internal Control* require agencies to design management

² IRS Restructuring and Reform Act of 1998 § 1001, Pub. L. No. 105-206 (1998).

Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks

structures that establish accountability for results when strategies for implementing or reengineering programs and operations are developed and executed. Managers should ensure that appropriate authority, responsibility, and accountability are defined and delegated to accomplish the mission of the organization and that an appropriate organizational structure is established to effectively carry out program responsibilities.

Recommendation

1. The Chief Human Resource Officer should apply a project management approach to ensure timely delivery of the guidance and tools necessary to implement an effective workforce planning process. This approach should include completing the following actions:
 - Identifying customers and goals.
 - Planning specific tasks and assigning responsibilities for completing the tasks necessary to accomplish workforce planning goals.
 - Describing deliverables and establishing timelines for accomplishing tasks and goals.
 - Developing objective measures to evaluate the success of the workforce planning process.
 - Monitoring progress and evaluating results of the project.

Management's Response: The Chief Human Resource Officer agreed to assign responsibility for the expansion of the workforce planning process to the Director Workforce Planning. The Director will develop a 5-year workforce plan and production schedule through the IRS Workforce Planning Council.

Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks

Expanding the Workforce Planning Process to Encompass 5 Years Will Increase the Ability to Identify Risks and Provide Necessary Data to Key Stakeholders

The IRS must be able to accurately forecast future personnel requirements because investments in human resources require long lead times and take years to reach full productivity. However, the IRS workforce planning process being developed is short-term (covering the current fiscal year plus 2 future fiscal years) and may not effectively address long-term (3 to 5 years) workforce planning goals.

The attrition of mission critical employees will affect agency goals due to the direct loss of experienced higher-graded personnel who are assigned to more complex work, and the need to assign remaining employees to train those that are currently being hired. In its 2000-2005 Fiscal Years Strategic Plan, the IRS included human resource issues as 1 of the 12 major trends, issues, and problems facing the bureau. This plan noted that significant numbers of employees in mission critical front-line compliance and information technology positions will be eligible for retirement.

In 2001, the GAO reported that retirement rates could be significant in the following IRS mission critical occupations by 2006:

- Twenty-two percent of Revenue Agents (3,123 of the approximately 14,200 employees in 1998).
- Twenty-seven percent of Criminal Investigators (921 of the approximately 3,400 employees in 1998).

OPM data show that between September 2000 and December 2001, the number of Revenue Agents and Revenue Officers has actually declined despite recent hiring initiatives (521 and 174 positions, respectively).

The OPM workforce planning model along with recent GAO reports reference the GPRA requirement for agencies to prepare strategic plans that address program objectives and goals and the resources necessary to accomplish these over at least a 5-year period.

The current process is the result of the IRS integrating its workforce planning process with the ongoing strategic planning and budgeting processes. The IRS budget

Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks

planning guidance includes milestones for preparing and delivering data that will also be used in the workforce planning efforts for these periods. The IRS strategic planning and budgeting process requires management to develop and report actual workload and resource estimates for the short-term (i.e., the current fiscal year and the 2 future years being planned). However, quantitative measures for long-term planning are not always required in the budget process. Neither the budget nor the workforce planning documents include milestones for delivering all of the data necessary to complete long-term workforce planning efforts.

Each of the IRS operating divisions has separate human resources and budget planning functions with responsibility for planning the application of resources and working with the IRS Agency-wide Shared Services function to recruit and hire employees. Managers from each of these functions were selected to serve on the IRS Workforce Planning Council. The charter for the Council assigns responsibility for development of a 2-year staffing and hiring plan, as opposed to addressing long-term workforce planning requirements.

Strategic workforce planning is a management framework for making staffing and related decisions based on an organization's mission, strategic plan, budgetary resources, and workforce competencies. The strategic workforce planning processes implemented by the IRS should not be limited by the current 2-year budget planning process. Unless the workforce planning process is expanded to cover a 5-year period, sufficient data will not be available to assess the long-term workforce planning needs, as suggested by the GPRA and reinforced in recent governmentwide reports and direction.

The GAO has recommended that the IRS work with Congressional and other stakeholders to establish long-term customer service goals and obtain the support and resources needed to reach customer service program goals. Data developed through a comprehensive long-term workforce planning process can provide management with the information necessary to support future appropriation

Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks

requests by demonstrating specific measurable impacts on organizational goals.

Recommendation

2. The Chief Human Resource Officer should expand the workforce planning process to encompass a 5-year period, including developing and reporting the data necessary to assess potential risks associated with staffing shortfalls and the impact on agency goals through this period.

Management's Response: The Chief Human Resource Officer agreed to develop a 5-year workforce plan that will be available along with other pre-planning materials necessary for the IRS strategic planning, budgeting, and performance management process.

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the Internal Revenue Service (IRS) Strategic Human Resources (SHR) function has implemented a process to timely develop and implement an effective workforce planning model to meet the expectations of the four operating divisions.

Because workforce planning is an ongoing process and the IRS has not yet completed each of the five steps in the Office of Personnel Management (OPM) planning model, we evaluated the accomplishments through the two initial steps, setting strategic direction and analyzing workforce supply, demand, and discrepancies. Additionally, we determined whether the workforce analysis step included guidance on actions necessary to provide sufficient detail to support the workforce planning process.

To accomplish our objective, we performed the following audit tests:

- I. Interviewed the IRS Chief Human Resource Officer and the Director Workforce Planning, along with reviewing available documentation, to determine whether management established a workforce planning process to effectively:
 - A. Identify and schedule the tasks necessary for completing a workforce planning model for the IRS.
 - B. Meet the workforce planning expectations of the operating divisions by evaluating the process used by SHR to solicit needs and expectations.
 - C. Identify and assign responsibility for delivering the guidance necessary for each of the steps included in the IRS planning model, along with establishing reasonable milestones for completion.
- II. Confirmed workforce planning expectations and needs of the four operating divisions by interviewing human resource and strategic planning managers in the four operating divisions to determine the types of guidance and direction they expect SHR to deliver and when they must have this guidance.
- III. Compared the current status of SHR efforts to deliver a workforce planning model and analysis to that of other government agencies by interviewing representatives from the OPM, Office of Management and Budget, and General Accounting Office.
- IV. Evaluated the potential benefits to be derived from effective designing and implementing workforce planning efforts by obtaining the data on the number of IRS mission critical positions eligible to retire.

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Program)

Mary V. Baker, Director

James V. Westcott, Audit Manager

James T. Avery, Senior Auditor

E. John Thomas, Senior Auditor

Gregory W. Holdeman, Auditor

Marjorie A. Stephenson, Auditor

**Expansion of the Workforce Planning Process Would Increase
Opportunities to Identify and Address Staffing Risks**

Appendix III

Report Distribution List

Deputy Commissioner
Commissioner, Large and Mid-Size Business Division LM
Commissioner, Small Business/Self-Employed Division S
Commissioner, Tax Exempt and Government Entities Division T
Commissioner, Wage and Investment Division W
Chief, Agency-Wide Shared Services A
Chief Human Resource Officer N:ADC:H
Director, Management and Finance LM:M
Director, Human Resources S:HR
Director, Human Resources T:HR
Director, Human Resources W:HR
Director, Strategy and Finance W:S
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaison: Chief Human Resource Officer N:ADC:H:I

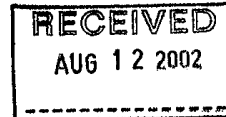
Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks

Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



AUG 8 2002

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Ronald P. Sanders
Chief Human Resource Officer

SUBJECT: Draft Audit Report - Expansion of the Workforce Planning Process Would Increase Opportunities to Identify And Address Staffing Risks (#200210004)

Thank you for the opportunity to review the draft of this report. As identified by the Treasury Inspector General for Tax Administration, the IRS has initiated the necessary actions to incorporate rigorous workforce planning into our new strategic planning process. This linkage has been formalized through the creation of a Workforce Planning Council, which is jointly chaired by the Chief Financial Officer and the Chief Human Resource Officer.

I appreciate your findings and I believe the IRS has been a leader in the federal government in identifying the significant role of workforce planning as evidenced by the creation of a formal Workforce Planning Division within the Strategic Human Resources (SHR) organization. This function was identified during the modernization process and subsequently implemented during the stand-up of SHR. In fact, elements of the workforce planning division were essential contributors to the modernization/transition process, prior to stand-up, through the use of complex operations research modeling efforts, such as the Workforce Transition Model.

IDENTITY OF RECOMMENDATION 1

The Chief Human Resource Officer should apply a project management approach to ensure timely delivery of the guidance and tools necessary to implement an effective workforce planning process. This approach should include completing the following actions.

- Identifying customers and goals.
- Planning specific tasks and assigning responsibilities for completing the tasks necessary to accomplish workforce planning goals.

Expansion of the Workforce Planning Process Would Increase Opportunities to Identify and Address Staffing Risks

2

- Describing deliverables and establishing timelines for accomplishing tasks and goals.
- Developing objective measures to evaluate the success of the workforce planning process.
- Monitoring progress and evaluating results of the project.

ASSESSMENT OF CAUSES

TIGTA found that the IRS did not use project management techniques when implementing workforce planning and workforce planning systems.

CORRECTIVE ACTIONS

We will assign responsibility for the expansion of the workforce planning process to the Director Workforce Planning. Among other things, the Director Workforce Planning will develop a five-year workforce plan, and production schedule, through the Workforce Planning Council.

IMPLEMENTATION DATE

January 1, 2003

RESPONSIBLE OFFICIALS

Chief Human Resource Officer

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective item through the Business Performance Review Process of the Commissioner of Internal Revenue, and the Inventory Tracking and Closure system of the Treasury Department.

IDENTITY OF RECOMMENDATION 2

The Chief Human Resource Officer should expand the workforce planning process to encompass a five-year period, including developing and reporting the data necessary to assess potential risks associated with staffing shortfalls and the impact on agency goals through this period.

ASSESSMENT OF CAUSES

TIGTA found that IRS workforce planning was limited to the Strategic Planning, Budgeting and Performance Management (SPB&PM) horizon of three years.

CORRECTIVE ACTIONS

The IRS will develop a five-year workforce plan that will inform the SPB&PM process and be available along with other pre-planning materials each December.

**Expansion of the Workforce Planning Process Would Increase
Opportunities to Identify and Address Staffing Risks**

3

IMPLEMENTATION DATE

January 1, 2003

RESPONSIBLE OFFICIAL

Director, Workforce Planning Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective item through the Business Performance Review Process of the Commissioner of Internal Revenue, and the Inventory Tracking and Closure system of the Treasury Department.